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Wendy Bluemling
Director - Regulatory Affairs

September 19, 1997

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

RECEIVED

SEP 22 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket No. 94-1 CCB/CPD 97-41

EX PARTE

Dear Mr. Caton:

Yesterday, on September 18, 1997, Ms. Anne MacClintock, Mr. David Clark, and I met with Mr. Paul Gallant to discuss events in Connecticut and the above referenced proceeding and SNET's Petition for Waiver, CCB/CPD 97-41. Attached are the materials referred to in the meeting to include 1) a summary of the rate of return tables used in SNET's Petition, and 2) an analysis entitled "People's Bank Business Barometer" that measures the economic activity within Connecticut. There was a discussion of how SNET's earnings are affected because of its size. Dave Clark explained that SNET, with its smaller population compared to larger price cap companies, must recover large, fixed expenditures over its smaller base population, which is a significant factor affecting earnings. As examples, Dave highlighted major planned, cost-intensive projects to include SNET's Project 2000 systems work, and its financial reporting systems upgrade. The high fixed expenses associated with these projects are spread across SNET's smaller customer base, whereas the cost for these same projects in the larger price cap companies can be spread over a much more sizable customer population.

This letter is filed in accordance with Section 1.1206(a)(1) of the Commission's rules, two (2) copies of this letter are being filed today.

Sincerely,

Wendy Bluemling

Attachments

Copy: Mr. Paul Gallant
International Transcription Services (ITS)

No. of Copies rec'd
LBI 4200E

041

***SNET'S Petition for Waiver/Amendment
Re: "X - Factor" of 6.5%***

TABLE 1

<i>SNET'S ANNUAL INTERSTATE RATES OF RETURN</i>					
1991 X=3.3%	1992 X=3.3%	1993 X=3.3%	1994 X=3.3%	1995 X=4.0%	1996 X=4.0%
8.56%	12.06%	11.52%	11.34%	11.58%	11.49%

TABLE 2

<i>SNET'S ANNUAL INTERSTATE RATES OF RETURN HAD THE X-FACTOR BEEN 6.5%</i>					
1991 X=6.5%	1992 X=6.5%	1993 X=6.5%	1994 X=6.5%	1995 X=6.5%	1996 X=6.5%
7.55%	10.4%	8.8%	7.5%	6.41%	5.96%

TABLE 3

<i>SNET'S ANNUAL INTERSTATE RATES OF RETURN HAD IT EXPERIENCED THE INDUSTRY'S AVERAGE ANNUAL GROWTH IN DEMAND FOR INTERSTATE ACCESS SERVICES</i>					
1991 X=3.3%	1992 X=3.3%	1993 X=3.3%	1994 X=3.3%	1995 X=4.0%	1996 X=4.0%
8.82%	13.93%	12.05%	12.50%	13.50%	13.17%

SNET'S Petition for Waiver/Amendment
Re: "X - Factor" of 6.5%

TABLE 4

<i>SNET'S ANNUAL INTERSTATE RATES OF RETURN USING A 6.5% X-FACTOR (PRIOR TO APPLICATION OF THE LOW-END ADJUSTMENT MECHANISM) (Composite Growth 4.3%: 30% Mou 7.0%, 70% Lines 3.2%; Exp Growth 3.2%)</i>				
YEAR 1 X=6.5%	YEAR 2 X=6.5%	YEAR 3 X=6.5%	YEAR 4 X=6.5%	YEAR 5 X=6.5%
11.0%	9.2%	8.1%	6.9%	5.6%

TABLE 5

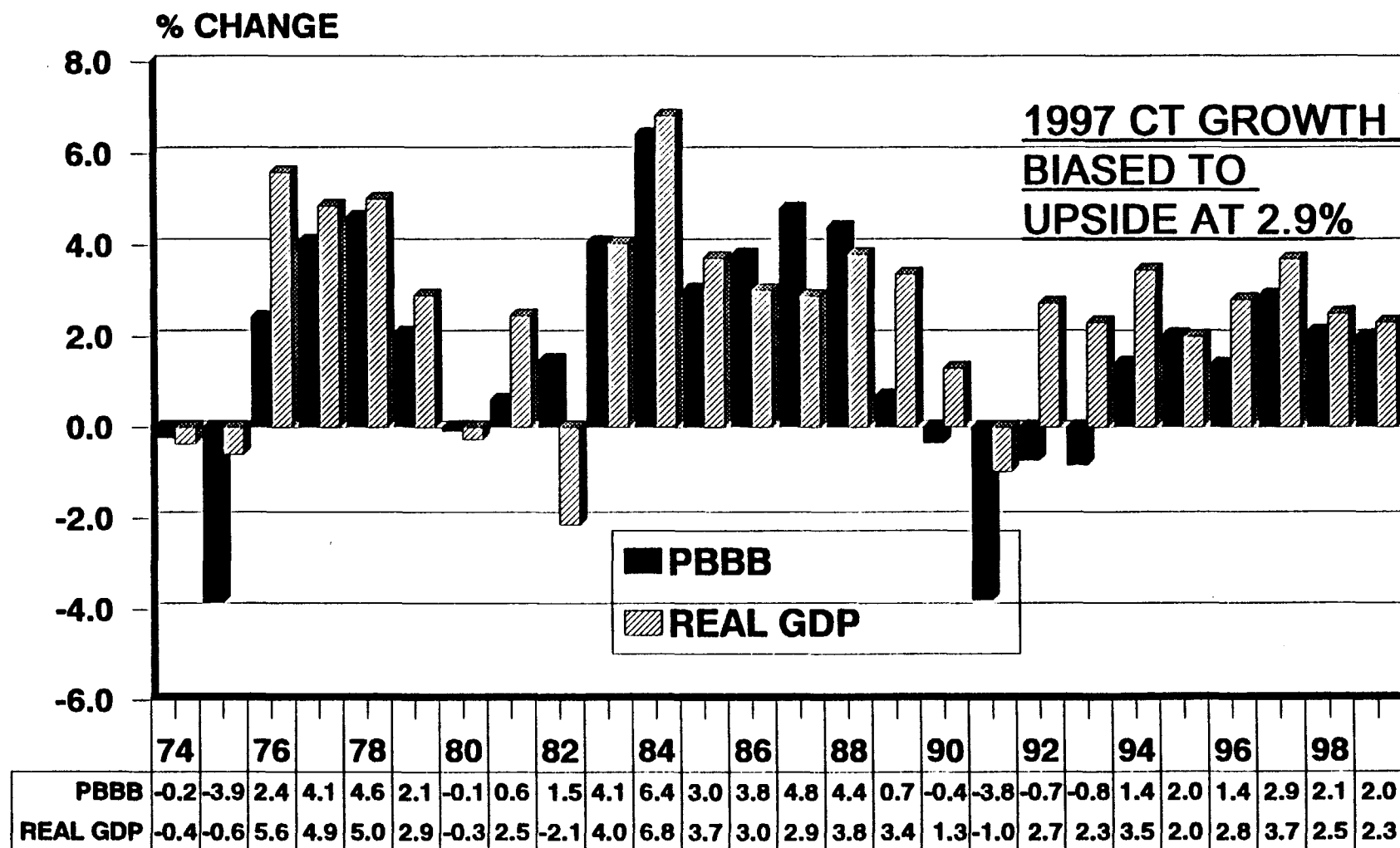
<i>SNET'S ANNUAL INTERSTATE RATES OF RETURN USING A 6.5% X-FACTOR (AFTER APPLICATION OF THE LOW-END ADJUSTMENT MECHANISM) (Composite Growth 4.3%: 30% Mou 7.0%, 70% Lines 3.2%; Exp Growth 3.2%)</i>				
YEAR 1 X=6.5%	YEAR 2 X=6.5%	YEAR 3 X=6.5%	YEAR 4 X=6.5%	YEAR 5 X=6.5%
11.0%	9.2%	8.6%	8.3%	8.0%

TABLE 6

<i>SNET'S ANNUAL INTERSTATE RATES OF RETURN USING AN X-FACTOR OF 5.3% (Composite Growth 4.3%: 30% Mou 7.0%, 70% Lines 3.2%; Exp Growth 3.2%)</i>				
YEAR 1 X=5.3%	YEAR 2 X=5.3%	YEAR 3 X=5.3%	YEAR 4 X=5.3%	YEAR 5 X=5.3%
11.9%	11.3%	10.9%	10.5%	10.0%

PEOPLE'S BANK BUSINESS BAROMETER VS. REAL GDP

ANNUAL % CHANGE, 1974-1999

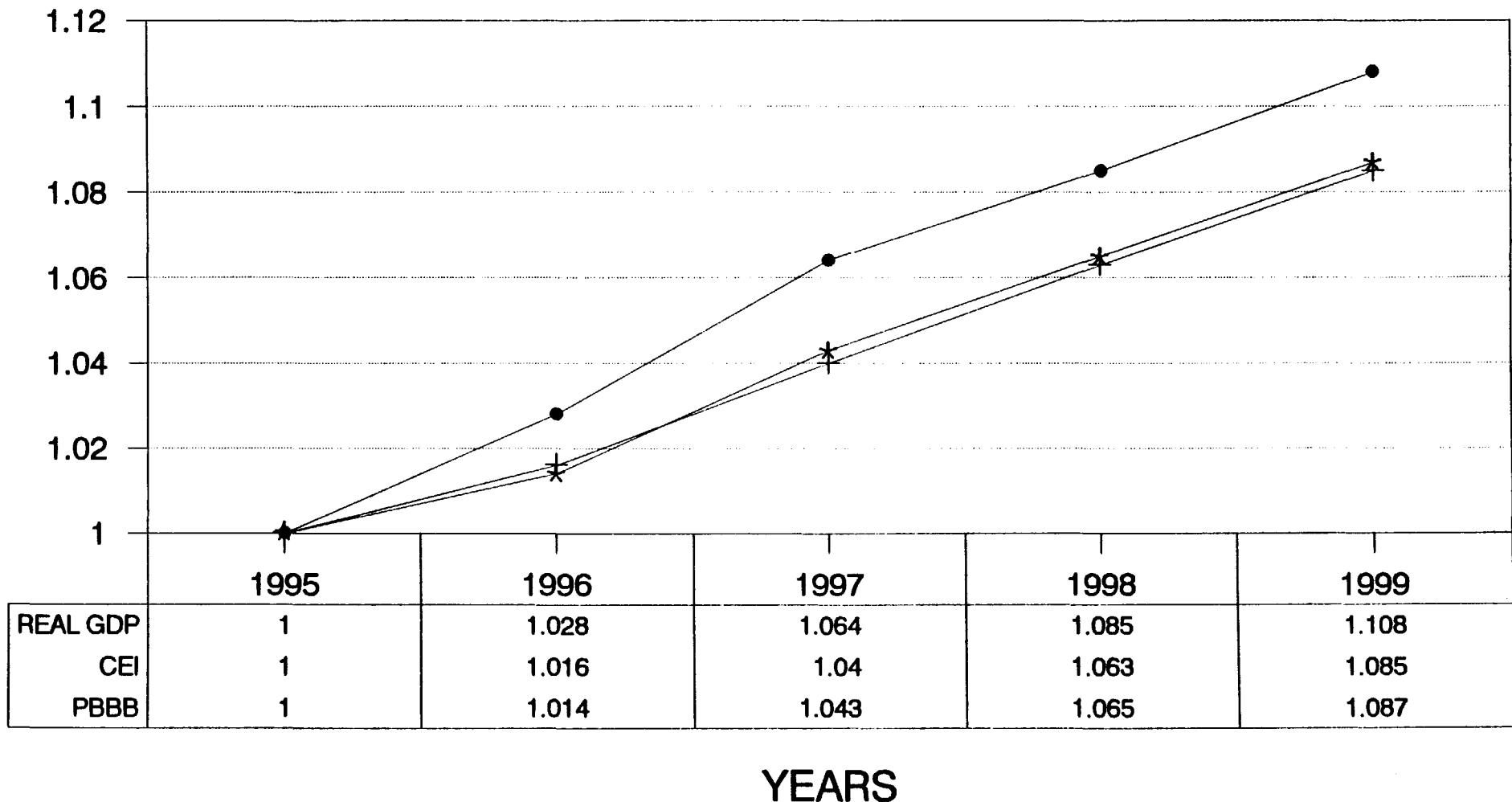


Sources: DataCore Partners, Inc. and U.S. Commerce Dept..

NOTE: Forecast begins in 1997

SEPTEMBER 1997

CUMULATIVE REAL GDP GROWTH VS. CEI AND PBBB GROWTH, 1995-1999



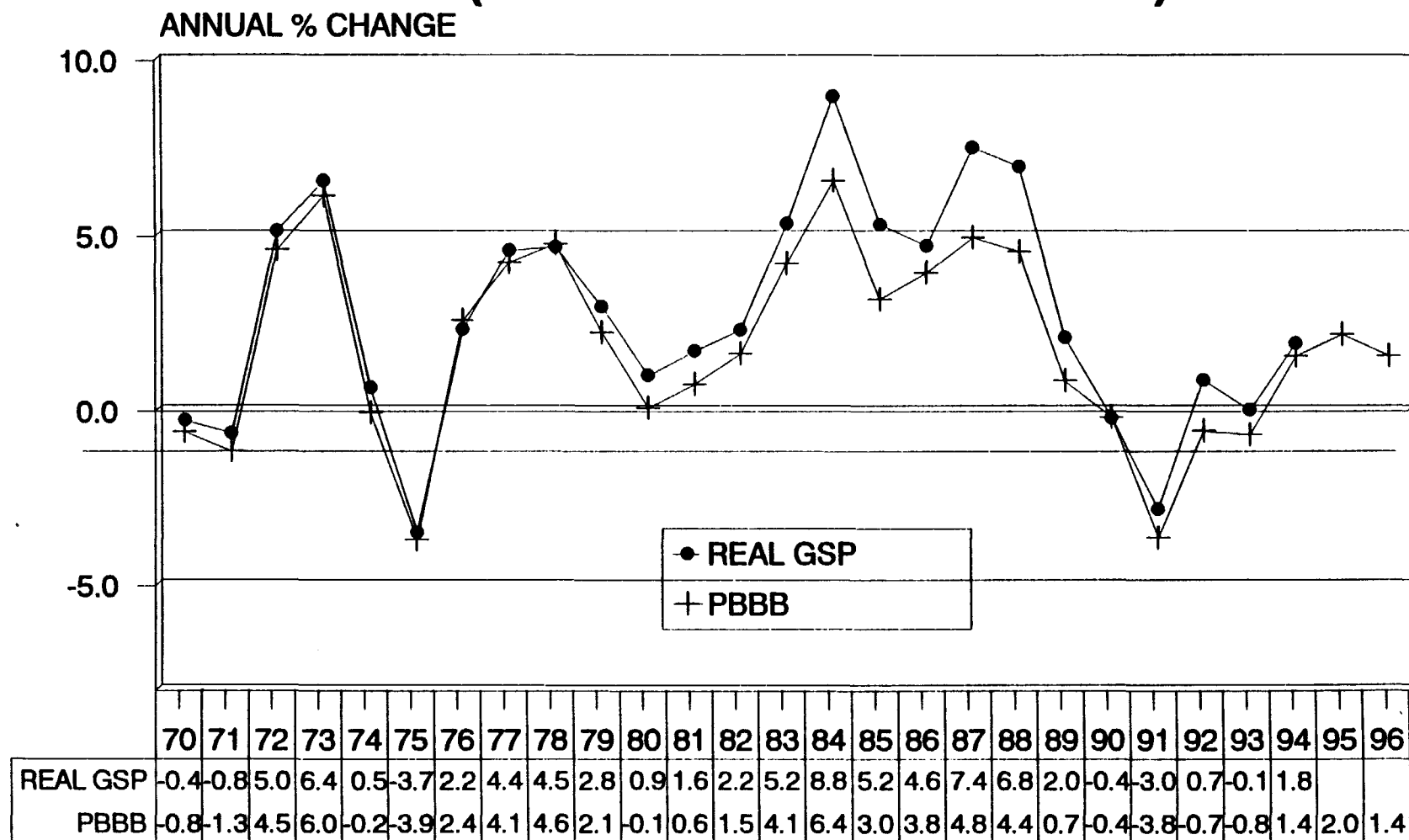
• REAL GDP + CEI * PBBB

SOURCES: DATACORE PARTNERS, INC.
U.S. COMMERCE DEPT.
SEPTEMBER 1997

PEOPLE'S BANK BUS. BAROMETER VS. CT. REAL GSP

(ANNUAL RATES OF CHANGE, 1970-1996)

(R-BAR SQUARE = 94.7%)



SOURCES: FEDERAL RESERVE BANK OF BOSTON, U.S. DEPT. OF COMMERCE, DATACORE PARTNERS, INC.

NOTE: REFLECT 3/97 CT LABOR REVISIONS

SEPTEMBER 1997

PEOPLE'S BANK BUSINESS **BAROMETER**

**COINCIDENT INDICATOR OF ECONOMIC
ACTIVITY WITHIN CONNECTICUT.**

FORMED FROM THREE STATEWIDE SERIES:

- MANUFACTURING PRODUCTION**
- NON-MANUFACTURING EMPLOYMENT**
- REAL DISPOSABLE INCOME**

**RELIABLE BAROMETER WITH RESPECT TO
THE MAGNITUDE AND DIRECTION OF
OVERALL ECONOMIC EXPANSION**